22.06 Example #5 – Noncontrolling Interest at Year End

Acquire 90%, consolidate at year end

When consolidated F/S are prepared at year end or in subsequent years, the working paper eliminations are similar. The entries for intercompany transactions are the same as for a 100% acquisition. However, an important difference in the worksheet for the less than 100% acquisition is that the worksheet must reflect the noncontrolling interest in the acquiree. In the I/S, consolidated net income is adjusted to disclose the net income or loss attributed to the noncontrolling interest. Comprehensive income is also adjusted to include the comprehensive income attributed to the noncontrolling interest.

Class Example #5

Let's assume P Co. **Acquired 90% of S Co.** stock for $900 on 12/31/X1, at which time the acquiree's total stockholders' equity was $600 and the fair value of net identifiable assets was $700. Equipment with a 5-year life had a fair value exceeding book value by $100 on 12/31/X1, and goodwill is believed to be impaired by $8 as of 12/31/X2. Income during the year for P was $3,000 and S was $150. S declared and paid dividends of $10 during the year. The investment is accounted for under the Equity method. At the date of acquisition, S Co. had 100,000 shares of stock outstanding with an FMV of $8 per share.

Summary: Acquire 90% for $900 on 12/31/X1, and consolidate on 12/31/X2

- Income during the year:
  - P – $3,000
  - S – $150
- Dividends paid by S = $10
- Equipment useful life = 5 years
- Goodwill Impaired by $8
- Noncontrolling interest $80,000
- Investment accounted for under the **equity method**.

At 12/31/X2, the separate balances of P and S and the consolidating adjustments might appear as follows:

Accounts	P Co	S Co	Debits	Credits	Consol
Cash	3,109	240			3,349
Equipment	8,000	500	80		8,580
Inv in S	998			998	--
Goodwill			272		272
$1 CS	(1,000)	(100)	100		(1,000)
APIC	(3,000)	(100)	100		(3,000)
Noncontrol Int.				94	(94)
RE	(8,107)	(540)	540		(8,107)

Purchase price	$900	
FMV	$700	FMV increment
BV	$600	

To account for S's income under the equity method:

Investment (150 × 90%)	135	
Equity in earnings (I/S)		135

To account for S's Dividend under the equity method:

Cash (10 × 90%)	9	
Investment		9

To Depreciate the Equipment (100/5 = $20)

Equity in earnings (I/S)	20	
Investment		20

To record Impairment of Goodwill:

Equity in earnings	8	
Investment		8

Investment	
900	9
135	20
	8
998	

To consolidate at year end:

C/S	100	
APIC	100	
R/E (400 + 150 – 10)	540	
PP&E (100 – 20 dep)	80	
Goodwill (280 – 8 impairment)	272	
Investment		998
Noncontrolling int. [80 + (10% × $150 income) – (10% × $10 div)]		94

Notice that the investment account was initially recorded at a cost of $900. It was then increased by 90% of the $150 of income ($135) and was reduced by the $9 dividend, the $20 ($100 / 5yrs) of depreciation and the $8 impairment loss on goodwill, resulting in an ending balance of $998.

The change in the noncontrolling interest was attributed to a portion of net income ($15) and dividends ($1) of the acquiree being allocated to the noncontrolling interest (80 + 15-1 = 94)

Required disclosures on the **income statement** include the total consolidated Income and the income broken out between the Acquirer and Acquiree. For example:

Net Income	$ 3,150
Net income attributable to noncontrolling interest in acquiree	(15)
Net income attributable to acquirer	$ 3,135

Statement of Retained Earnings

Combine Income

	Statement of Retained Earnings
	Beginning RE
+/–	Prior Period adjustment
	Adjusted beginning RE — Acquirer only
+	**Net Income**
	• Acquirer (whole year)
	• Acquiree (acquisition date)
	(Dividends — Acquirer only)
	Ending retained earnings